HYBRID KINETIC GROUP LIMITED
正道集團有限公司

(incorporated in Bermuda with limited liability)

(Stock code: 1188)

UNAUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

The board of directors (the "**Board**" or the "**Directors**") of Hybrid Kinetic Group Limited (the "**Company**") would like to announce the unaudited consolidated financial results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2019 (the "**Year**") together with the audited comparative figures for the preceding year ended 31 December 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019** ***HK$'000*** **(Unaudited)**	2018 *HK$'000* (Audited)
Revenue	*4*	**16,342**	61,250
Cost of sales		**(3,899)**	(52,931)
Gross profit		**12,443**	8,319
Other income	*5*	**1,041**	77,959
Distribution costs		**(2,907)**	(8,082)
Administrative expenses		**(359,404)**	(365,437)
Share of result of associates		**(233,719)**	(2,570)
Loss from operations		**(582,546)**	(289,811)
Finance costs	*7*	**(1,726)**	–
Loss before tax		**(584,272)**	(289,811)
Income tax expense	*8*	**–**	(18)
Loss for the year	*9*	**(584,272)**	(289,829)

	Notes	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
Other comprehensive income/(loss):			
Items that will not be reclassified to profit or loss:			
Fair value changes of equity investments at fair value through other comprehensive income		**5,062**	(25,399)
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations – Group		**(19,987)**	(20,512)
Exchange differences on translating foreign operations – Associates		**(4,163)**	(23,931)
Other comprehensive loss for the year		**(19,088)**	(69,842)
Total comprehensive loss for the year		**(603,360)**	(359,671)
Loss for the year attributable to:			
Owners of the Company		**(582,402)**	(288,571)
Non-controlling interests		**(1,870)**	(1,258)
		(584,272)	(289,829)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(601,179)**	(356,395)
Non-controlling interests		**(2,181)**	(3,276)
		(603,360)	(359,671)
Loss per share	*11*		
Basic *(cents per share)*		**(2.86)**	(1.42)
Diluted *(cents per share)*		**(2.86)**	(1.42)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**35,722**	58,102
Investment in associates	*12*	**168,980**	406,862
Investment in joint venture		**–**	22,772
Equity investments at fair value through other comprehensive income	*13*	**22,570**	38,423
Prepayments	*14*	**–**	98,370
Right-of-use assets		**23,223**	–
Intangible assets		**33,591**	62,555
		284,086	687,084
Current assets			
Inventories	*15*	**4,397**	12,240
Trade and other receivables	*16*	**461,169**	498,054
Derivative financial instrument		**–**	55,018
Pledged bank deposits		**2,014**	2,007
Bank and cash balances		**8,860**	45,815
		476,440	613,134
Current liabilities			
Lease liabilities		**13,605**	–
Trade and other payables	*17*	**101,024**	61,170
		114,629	61,170
Net current assets		**361,811**	551,964
Non-current liabilities			
Lease liabilities		**10,169**	–
NET ASSETS		**635,728**	1,239,048
Capital and reserves			
Share capital		**2,035,287**	2,035,287
Reserves		**(1,415,745)**	(825,850)
Equity attributable to owners of the Company		**619,542**	1,209,437
Non-controlling interests		**16,186**	29,611
TOTAL EQUITY		**635,728**	1,239,048

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION

Hybrid Kinetic Group Limited was incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The address of its principal place of business is Suites 1407-8, 14th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (together referred to as the "**Group**") were development of high-tech electric motor vehicles, development and sales of battery management systems and spare parts and development of advanced batteries materials.

2. GOING CONCERN BASIS

The Group incurred a loss attributable to owners of the Company of HK$582,402,000 and operating cash out flow for the year ended 31 December 2019. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the major shareholder, at a level sufficient to finance the working capital requirements of the Group. The major shareholder has agreed to provide adequate funds for the Group to meet its liabilities as they fall due. The directors are therefore of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2019. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below.

HKFRS 16 "Leases"

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.7%.

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

– the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;

– reliance on previous assessments on whether leases are onerous;

– the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and

– the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease.

As a lessee, the Group's leases are mainly rentals of offices. The right-of-use assets were measured at the amount equal to the lease liability and there were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	1 January 2019
	HK$'000
Increase in right-of-use assets	**40,682**
Increase in lease liabilities	**40,682**

The reconciliation of operating lease commitment to lease liabilities as at 1 January 2019 is set out below:

	HK$'000
Operating lease commitment at 31 December 2018	48,291
Less:	
Commitments relating to leases with a remaining lease term ending on or before 31 December 2019 and low-value assets	(4,696)
Discounting	(2,913)
Lease liabilities as at 1 January 2019	40,682
Analysed as:	
Current	26,957
Non-current	13,725
	40,682

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of those new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

4. REVENUE

The Group's revenue represents sales and service income of battery management systems and spare parts and interest income from finance lease.

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Sales and service income of battery management systems and spare parts	**16,342**	61,191
Revenue from contracts with customers	**16,342**	61,191
Interest income from finance leasing	**–**	59
	16,342	61,250

Disaggregation of revenue from contracts with customers:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Geographical markets		
PRC	**16,342**	61,191
Sales and services income of battery management system and lithium batteries	**16,342**	61,191
Timing of revenue recognition		
At a point in time	**16,342**	61,191

Sales and service income of battery management systems and spare parts

The Group sells battery management systems and spare parts to the customers. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

A receivable is recognised when the products are delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Sales to customers are normally made with credit terms of 30 to 90 days. For new customers, deposits or cash on delivery may be required. Deposits received are recognised as a contract liability.

5. OTHER INCOME

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Interest income	**40**	205
Other receivables interest income	**–**	2,230
Gain on disposal of an associate	**–**	62,411
Recognition of deferred income on capital contribution to associate	**–**	1,332
Fair value gain on derivative financial instrument	**–**	8,616
Others	**1,001**	3,165
	1,041	77,959

6. SEGMENT INFORMATION

The Group's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different technology and marketing strategies. The Group has three reportable segments: development of high-tech electric motor vehicles, development and sales of battery management systems and spare parts and development of advanced batteries materials.

Segment profits or losses do not include unallocated corporate income and expenses. Segment assets do not include unallocated corporate assets. Segment liabilities do not include unallocated corporate liabilities. Segment non-current assets do not include financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

Information about reportable segment profit or loss, assets and liabilities:

	High-tech electric motor vehicles *HK$'000*	Battery management systems and spare parts *HK$'000*	Advanced batteries materials *HK$'000*	Total *HK$'000*
Year ended 31 December 2019 (Unaudited):				
Revenue	**–**	**16,242**	**100**	**16,342**
Segment loss	**(227,469)**	**(11,362)**	**(979)**	**(239,810)**
Depreciation	**(2,081)**	**(1,505)**	**(12)**	**(3,598)**
Other material non-cash items:				
Research and development expenses	**(207,331)**	**(869)**	**(570)**	**(208,770)**
At 31 December 2019:				
Segment assets	**470,244**	**27,241**	**2,237**	**499,722**
Segment liabilities	**6,735**	**10,944**	**165**	**17,844**
Year ended 31 December 2018 (Audited):				
Revenue	58	61,192	–	61,250
Segment loss	(85,460)	(90,911)	(8,169)	(184,540)
Depreciation	(13,044)	(2,248)	(104)	(15,396)
Other material non-cash items:				
Impairment of property, plant and equipment	(134)	–	–	(134)
Research and development expenses	(2,964)	(22,559)	(6,354)	(31,877)
Additions to segment non-current assets	2,019	33,911	–	35,930
At 31 December 2018:				
Segment assets	743,566	31,762	4,076	779,404
Segment liabilities	9,144	9,725	161	19,030

Reconciliations of reportable segment revenue, profit and loss, assets and liabilities:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Revenue:		
Total revenue of reportable segments and consolidated revenue	**16,342**	61,250
Profit or loss:		
Total loss of reportable segments	**(239,810)**	(184,540)
Corporate and unallocated profit or loss	**(344,462)**	(105,271)
Income tax expense	**–**	(18)
Consolidated loss for the year	**(584,272)**	(289,829)
Assets:		
Total assets of reportable segments	**499,722**	779,404
Corporate and unallocated assets:		
– Equity investments at fair value through other comprehensive income	**22,570**	38,423
– Bank and cash balances held by the Group's headquarters	**909**	15,664
– Others	**237,325**	466,727
Consolidated total assets	**760,526**	1,300,218
Liabilities:		
Total liabilities of reportable segments	**17,844**	19,030
Corporate and unallocated liabilities		
– Others	**106,954**	42,140
Consolidated total liabilities	**124,798**	61,170

Geographical information:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Revenue:		
The People's Republic of China (the "**PRC**")	**16,342**	61,250

In presenting the geographical information, revenue is based on the location of the customers.

Revenue from major customers:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Customer A	**Nil**	43,036
Customer B	**Nil**	18,077
Customer C	**14,783**	Nil

Revenue from above customers individually contributed more than 10% of the total consolidated revenue of the Group.

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Non-current assets (other than financial assets):		
United States of America	**2,090**	1,025
The PRC	**200,401**	533,161
Hong Kong and others	**59,025**	114,475
	261,516	648,661

7. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Lease interests	**1,726**	–

8. INCOME TAX EXPENSE

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current tax – PRC Enterprise Income Tax		
Provision for the year	**–**	18
	–	18

No provision for Hong Kong Profits Tax has been made for the year as the Group did not generate any assessable profits arising in Hong Kong (2018: nil).

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The reconciliation between the income tax expense and the product of loss before tax multiplied by Hong Kong Profits Tax rate is as follows:

	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Loss before tax	**(584,272)**	(289,811)
Tax on loss before income tax, calculated at the rates applicable to profit/loss in the tax jurisdictions concerned	**(112,938)**	(41,855)
Tax effect of non-taxable income	**(4,254)**	(17,595)
Tax effect of non-deductible expenses	**117,192**	55,984
Tax effect of tax loss not recognised	**–**	3,484
Income tax expense for the year	**–**	18

9. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging/(crediting) the following:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Continuing operations:		
Auditor's remuneration	**1,400**	1,600
Cost of inventories sold	**3,899**	52,931
Depreciation of property, plant and equipment	**18,417**	29,433
Depreciation fo right-of-use assets	**15,568**	–
(Gain)/loss on disposal of property, plant and equipment	**(1,105)**	4,997
Loss on dissolution of an associate	**–**	14,123
Recognition of deferred income on capital contribution to associate	**–**	(1,332)
Fair value gain of derivative financial instrument	**–**	(8,616)
Impairment of intangible assets	**28,964**	–
Impairment of property, plant and equipment	**–**	6,197
Net exchange loss	**912**	2,537
Operating lease charges in respect of land and buildings	**–**	42,851
Research and development costs	**208,769**	21,923
Staff costs including directors' emoluments		
– Salaries, bonus and allowances	**76,381**	158,200
– Retirement benefits scheme contributions	**4,516**	9,091
	80,897	167,291

10. DIVIDENDS

The directors do not recommend or declare the payment of any dividend in respect of the years ended 31 December 2019 and 2018.

11. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for year attributable to owners of the Company of approximately HK$582,402,000 (2018: approximately HK$288,571,000) and the weighted average number of 20,352,873,000 (2018: 20,352,078,000) ordinary shares in issue during the year.

(b) Diluted loss per share

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 December 2019 and 31 December 2018.

12. INVESTMENT IN ASSOCIATES

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Unlisted investment:		
Share of net assets	**168,980**	406,862

Details of the Group's associates at 31 December 2019 and 2018 are as follows:

Name	**Place of incorporation/ registration**	**Percentage of the Company's indirect ownership interest**		**Principal activities**
		2019 (Unaudited)	2018 (Audited)	
深圳南科燃料電池有限公司 Shenzhen SUSTC Fuel Cell Company Limited*	The PRC	**16.7%**	16.7%	Environmental automobile and related business, the PRC
寧波京威動力電池有限公司 Ningbo Joint Venture*	The PRC	**18%**	18%	Manufacturing and sales of batteries

* *For identification purpose only*

	Shenzhen SUSTC Fuel Cell Company Limited		Ningbo Joint Venture	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
At 31 December:				
Non-current assets	**–**	–	**393,673**	441,966
Current assets	**45,580**	46,441	**525,822**	1,849,782
Non-current liabilities	**(23,996)**	(24,450)	**–**	–
Current liabilities	**(734)**	(789)	**(27)**	(51,037)
Net assets	**20,850**	21,202	**919,468**	2,240,711
Group's share of net assets	**3,476**	3,534	**165,504**	403,328
Year ended 31 December:				
Revenue	**–**	297	**–**	–
Loss for the year	**–**	(4,101)	**(1,298,437)**	(13,889)
Other comprehensive loss	**(352)**	(1,250)	**(22,806)**	(122,551)
Total comprehensive loss for the year	**(352)**	(5,351)	**(1,321,243)**	(136,440)
Dividends received from associates	**–**	–	**–**	–

13. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Equity securities listed outside Hong Kong		
上海仁通檔案管理咨詢服務有限公司	**–**	15,427
Unlisted equity securities		
吉林美來中信木業有限公司	**22,570**	22,996
	22,570	38,423

The above investments are intended to be held for the medium to long-term. Designation of these investments as equity investments at fair value through other comprehensive income can avoid the volatility of the fair value changes of these investments to the profit or loss.

During the year ended 31 December 2019, the Group disposed of its all equity interest held in the 上海仁通檔案管理咨詢服務有限公司 ("**上海仁通**"), incorporated in the PRC and listed in National Equities Exchange and Quotations (stock code: 838518), in the public market.

During the year ended 31 December 2016, the Group entered into an agreement with an independent third party to acquire the equity interest in 吉林美來中信木業有限公司 ("**吉林美來**", together with its subsidiaries as the "**Meilai Group**") at a consideration of RMB60,000,000. 吉林美來 is incorporated in the PRC and is an unlisted limited liability company established in the PRC under the PRC Law, which does not have quoted market price in an active market. The Group intend to hold the investment for long-term capital appreciation and had no intention to dispose of the investment in the near future. As at 31 December 2019, the Group holds 5% (2018: 5%) equity interest in 吉林美來.

14. PREPAYMENTS

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Prepayment for:		
– Research and developments projects for motor vehicles	**–**	98,370

15. INVENTORIES

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Raw materials	**3,162**	10,369
Finished goods	**1,184**	1,745
Consumables	**51**	126
	4,397	12,240

16. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**–**	790
Less: impairment losses	**–**	–
	–	790
Prepayment to a supplier	**332,641**	333,918
Prepayments to others	**12,421**	131,346
Deposits and other receivables	**110,614**	30,132
Amounts due from directors	**5,493**	1,868
	461,169	498,054

In 2018, included in prepayments to others mainly represent amount prepaid for research and development projects of approximately HK$106,932,000, and prepayment for other expenses.

As at 31 December 2019, included in other receivables mainly represents i) receivables of approximately HK$23,000,000 from disposal of investments in joint venture, ii) receivables of approximately HK$55,000,000 incurred from the profits guaranteed arrangement which is secured by equity interest of the debtor and iii) other loans receivables of approximately HK$17,106,000 (2018: HK$17,106,000) carries interest rate at 4.35% to 6% (2018: 4.35% to 6%) per annum, repayable within one year and is secured by equity interest of the debtor, being an unlisted limited liability company and its own shares of a listed limited liability company, and guarantees provided by the related parties of the debtor. The directors of the Company monitored the collectability of these receivables closely with reference to their respective current creditworthiness and repayment records. As at 31 December 2019, all these receivables were neither past due nor impaired. The management believes that no impairment allowance is necessary in respect of the these receivables as they are considered fully recoverable.

Amounts due from directors are unsecured, interest-free and repayable on demand.

Trade receivables

The Group allows an average credit period of 30 to 90 days to its trade customers. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The aging analysis of trade receivables, based on invoiced date, and net of allowance, is as follows:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 30 days	**–**	790
	–	790

As at 31 December 2019, all trade receivables were neither past due nor impaired. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there are no significant change in their respective credit quality and the balances are still considered fully recoverable.

17. TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**5,951**	7,615
Accruals and other payables	**91,573**	53,164
Amounts due to a director	**3,500**	391
	101,024	61,170

Trade payables

The aging analysis of the trade payables, based on the date of receipt of goods, is as follows:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
181 to 360 days	**–**	49
Over 360 days	**5,951**	7,566
	5,951	7,615

REVIEW OF UNAUDITED ANNUAL RESULTS AND FURTHER ANNOUNCEMENT(S)

ZHONGHUI ANDA CPA LIMITED (the "**Auditors**") was appointed as the external auditors of the Company to conduct an audit on the consolidated financial statements of the Group for the year ended 31 December 2019.

Due to the outbreak of the novel coronavirus (COVID-19) and travel restrictions in force in parts of mainland China ("**China**" or "**PRC**"), certain audit procedures required to be conducted by the Auditors cannot be completed by the date of this announcement. Accordingly, the unaudited financial results for the Year contained herein have not been agreed with the Auditors as required under Rule 13.49(2) of the Listing Rules.

Nevertheless, the unaudited annual results for the Year contained herein have been reviewed by the audit committee of the Company.

Following completion of the auditing process, the Company will issue further announcement(s) in relation to, among other matters, the audited consolidated results for the Year as agreed by the Auditors and the material differences (if any) as compared with the unaudited annual results contained herein. In addition, the Company will issue further announcement as and when necessary if there are other material developments in the completion of the auditing process.

MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER INFORMATION

Overview

During the Year, the principal businesses of the Group included the development and/or sale of:

- battery management systems and spare parts;
- high-tech electric motor vehicles; and
- advanced batteries materials, including key new energy automobile components and single and few-layer graphene.

The Group's revenue and gross profit for the Year amounted to approximately HK$16.3 million (2018: HK$61.3 million) and HK$12.4 million (2018: HK$8.3 million). The decrease of revenue was caused by the slowdown of battery system sold by the Group in the Year. The gross profit for the Year was attributable to the sales and service income of advanced battery management system.

The distribution costs and administrative expenses for the Year decreased to approximately HK$ 2.9 million (2018: HK$8.1 million) and HK$359.4 million (2018: HK$365.4 million), due to the result of cost-saving plan.

The loss attributable to shareholders for the Year amounted to HK$582.4 million (2018: HK$288.6 million, the increase in loss was mainly attributed to the increase of share of loss of associate of HK$233 million (2018: HK$2.6 million).

Battery management systems and spare parts

The Group has been engaging in the automotive batteries business since 2011.

We have our own manufacturing facilities in Lianyungang, Jiangsu Province, China for the processing of battery cells and assembling of batteries and spare parts into battery management systems. As part of the manufacturing process of the battery management systems, we source battery cells from certain designated suppliers, and provide the necessary expertise, technical know-how and support to such suppliers so as to aid them in building production lines that are developed and tailored for the manufacture and supply of battery cells exclusively to the Group.

During the Year, the total revenue derived from the sales and service income of battery management systems and spare parts amounted to approximately HK$16.3 million (2018: HK$61.3 million).

High-tech electric motor vehicles

We believe that the automotive industry is constantly faced with significant challenges that will lead to change in market expectations and customer usages, not to mention more stringent environmental and regulatory demands as well.

We are in the stage of completing the design of a globally modular SUV (sport utility vehicle) and SEDAN vehicle platform which allows a higher and more flexible bandwidth of wheelbases and track widths for front, middle and rear compartments, and incorporates with a modularity and sharing strategy by utilizing various clean energy powertrains system, chassis and suspension geometries across other sedans and/or SUVs from our portfolio. With such designs and technologies, our vehicles will be more capable, better defined and balanced to attend to different requirements, while providing the most advanced features and technologies in segment to out-perform its competitors. Our modularity and sharing strategy allow us to accelerate the vehicle development process, increase the efficiency and reduce costs associated with the development and manufacturing process. The customers-oriented approach are ultimately of benefit to our customers in a vehicle cost-performance perspective.

Structure of research and development and projects management of the Group are continuously optimized and strengthened for the development of cross-platform sedans and SUVs, and sub-systems applied in the vehicles to be developed in future. The implementation of sedans and SUV models, and other key innovative projects will undoubtedly and effectively enhance the sustainability of the Group in automobile industry in a long run.

To ensure that the Group is ready for the transition to electric mobility, the Group has also been keeping itself up with, and possesses technologies in powertrain system, series of batteries and micro-turbine range extender, which provide the Group with the capability of developing vehicles with self-owned technologies in most major components.

During the Year, the auto sector globally is facing a downturn and auto components industry witnessed a decline in turnover. While the Group had been actively seeking collaboration opportunities with potential business partners and investors to finance the development and expansion of the business of the Group and expand its income sources and revenue streams, the testing operation environment has put the automotive industry in an especially tenuous position for surviving the unprecedented situation. Industry players, which include leading automakers, established joint ventures to the most innovative upstarts making connected electric vehicles have become more and more prudent.

Growth momentum was pulled down and weaker sentiment and delay had been seen in certain proposed or planned investment and cooperation opportunities with the Group. This is the case in the co-operation arising from the licensing agreement entered into between Shanghai Gonggen Motors Technology Company Limited*（上海貢亘汽車科技有限公司）("**Shanghai Gonggen**"), a wholly-owned subsidiary of the Company, with Fujian Bangzhu Hybrid Kinetic New Energy Industrial Park Company Limited*（福建邦竹正道新能源產業園有限公司）("**FBHK**") in June 2019 under which FBHK has agreed to pay a non-refundable license fee of RMB640 million to Shanghai Gonggen for the latter's agreement to license intellectual properties and technical know-how to FBHK for the design, development, manufacturing and sale of new energy vehicles in the Fujian province for a licensed period of ten years starting from 9 June 2019. FBHK is yet to fulfil its payment obligation despite repeated requests. The Company will seek professional advice, commence negotiation with FBHK and, if necessary, resort to legal recourse to protect the Group's interest.

For the Year, there is no revenue from this segment (2018: HK$42,000).

Advanced batteries materials

The Group is dedicated to the research and development of advanced batteries materials and has an experienced team of experts with diverse expertise in energy management, system controls, power conversion and energy storage technologies for automobiles. During the Year, we had applied our graphene technologies to enhance the conductivity of our high voltage battery packs to allow faster charging for integrating into the initial stages of the powertrain and vehicle development.

To further promote technological advancements that drive innovation, raise efficiencies and enhance safety, the Group has been collaborating with academic and research institutions from time to time to conduct research in auto technology and related materials. One of the Group's ongoing research projects is a 7-year project with the University of California focusing on graphene materials for automobile applications, which is expected to be completed in 2020.

To protect intellectual property rights, the Group has obtained patent registration with the United States Patent and Trademark Office in respect of our interest in the rights to an invention (namely, "NANOPOROUS GRAPHENE NANOWIRES AND PRODUCING METHODS AND APPLICATIONS OF SAME") under the patent number US9,796,592 B2.

For the Year, there was no revenue recorded from this segment of business (2018: Nil).

PROSPECTS

The automotive industry is constantly evolving. It is undergoing a transformation, especially with regard to digitalization. The transformation propels the Group as one of the industry players to find ways to strengthen its capabilities as well as to diverse or transform its business models and processes across the value chain (whether in the design, development, manufacture, marketing and/or sale of automobiles and related materials) to align with the new sources of growth and value creation.

It has always been the Company's strategy to explore opportunities with its business partners or potential investors to enhance the Group's technological innovation, financial resources and other capabilities to help drive the Group's technology enablement and transformation decision for materialising the manufacture of new energy vehicles designed or developed by the Group and its plans for business expansion, which are crucial to the Group's future success in the automotive industry.

Further, the Group has been actively seeking collaboration opportunities with potential business partners and investors to expand the business and to alleviate liquidity pressure of the Group. Some potential collaborations are at negotiation stage. The Company will comply with the applicable Listing Rules if any agreement is reached on such potential collaboration(s).

Since the outbreak of COVID-19 at the end of December 2019, the epidemic has been menacing and impact on the global business environment. No industry player in the auto industry has been immune to the effects of COVID-19. The Group will adjust and adapt to the market conditions. Depending on the development and spread of the epidemic, further changes in economic conditions for the Group arising thereof may have negative impact on the operating environment of the businesses of the Group and, in turn, the financial performance of the Group, the extent of which could not be estimated as at the date of this announcement. The Group will pay close attention to the development of the epidemic and evaluate its impact on its financial position and operating results.

MATERIAL ACQUISITION OR DISPOSAL

The Group did not have material acquisition or disposal of assets during the Year or any future plans for material investment or capital assets.

DIVIDEND

The Directors do not recommend the payment of any final dividend to shareholders of the Company for the year ended 31 December 2019 (2018: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

FUND RAISING ACTIVITIES DURING THE YEAR

During the Year, the Company had not undertaken any fund raising activity.

LIQUIDITY, FINANCIAL RESOURCES, CAPITAL STRUCTURE AND TREASURY POLICY

As at 31 December 2019, the total equity of the Group amounted to approximately HK$635.7 million (31 December 2018: HK$1,239.0 million).

The gearing ratio of the Group as at 31 December 2019 measured in terms of total liabilities divided by shareholders' equity was approximately 19.63% (31 December 2018: 4.94%).

As at 31 December 2019, net current assets of the Group were approximately HK$361.81 million (31 December 2018: HK$552.0 million). The cash and cash equivalents amounted to HK$8.86 million (31 December 2018: HK$45.8 million). The Group did not have outstanding borrowings (31 December 2018: Nil).

The Group adopts a conservative and balanced treasury policy in cash and financial management. The Group's cash is generally placed as deposits mostly denominated in Hong Kong dollars, United States dollars or Renminbi. To manage liquidity risk, the Group regularly reviews liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

PLEDGE OF THE GROUP'S ASSETS

As at 31 December 2019, the Group had pledged its bank deposits of approximately HK$2.0 million (31 December 2018: HK$2.0 million) to the Group's bankers to secure general banking facilities granted to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

During the Year, almost all of the income and expenditure of the Group were denominated in Renminbi, Euro, Hong Kong dollars and/or United States dollars. The Group had no significant exposure to foreign exchange fluctuations and therefore, had not taken any financial instruments for hedging purpose.

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group had a total of approximately 100 employees as at 31 December 2019 (31 December 2018: 228 employees). It has been the Group's policy to ensure that the remuneration levels of the Directors and its employees are reviewed and rewarded on a performance-related basis within the general framework of the Group's salary and bonus system. Share options may also be granted to the Directors and employees of the Group to attract, retain and incentivise them to work and make contribution towards the long term growth and development of the Group.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to ensure better transparency and protection of the interests of the Company and its shareholders as a whole and to enhance corporate value and accountability. The Company wishes to highlight that the Board will continue to devote efforts in ensuring effective leadership and control of the Company and the transparency and accountability of all operations. Throughout the Year, the Company had adopted and complied with the code provisions of the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "**Model Code**") as its own code of conduct governing securities transactions by the Directors. All Directors, after specific enquiries by the Company, had confirmed to the Company their compliance with the required standards set out in the Model Code during the Year.

OTHER INFORMATION

Update on the legal proceedings against members of the Group

(1) Legal dispute with XALT

As disclosed in the Company's annual report for the year ended 31 December 2018 regarding, among the other things, the lawsuit commenced by Townsend Ventures LLC, XALT Energy LLC and XALT Energy MI, LLC (collectively, "**XALT**") against the Company and one of its wholly-owned subsidiaries, Billion Energy Holdings Limited ("**Billion Energy**"), the supply agreement dated 25 March 2015 entered into between Billion Energy and XALT Energy MI, LLC for the supply of battery cells was at the core of a civil lawsuit (the "**Lawsuit**") commenced by XALT in the United States District Court for the Northern District of Maryland (the "**U.S. District Court**"), located in Baltimore Maryland. In August 2017, the U.S. District Court granted the Company's motion to compel that all claims in the Lawsuit be subject to binding arbitration in Hong Kong, before the Hong Kong International Arbitration Centre. The U.S. District Court ordered the Lawsuit stayed, and administratively closed, unless and until there is a conclusion to such an arbitration. The U.S. District Court therefore will not preside over the Lawsuit, although it may consider an application to enter a judgement if and when there is a final order after arbitration before the Hong Kong Arbitration Centre. The parties to the Lawsuit are ordered to report back to the U.S. District Court after conclusion of any arbitration proceeding in Hong Kong.

Since the issue of the U. S. District Court's order and to the best of our Directors' knowledge, XALT has not taken any steps to initiate any action or arbitration in Hong Kong.

If any arbitration or other proceedings is initiated, the Company will aggressively defend the Lawsuit. The Company, after consultation with its legal counsel and based on the current understanding of the facts, believes it has meritorious defense to the alleged claims by XALT.

The Company has engaged legal advisers in Hong Kong to handle the arbitration process. The arbitration, if initiated, may take some considerable time before reaching any conclusion.

It is not entirely within the control of the Company as to whether or when the legal dispute or alleged claims with XALT will be concluded. The Company will continue to use its best endeavours to communicate with XALT and seek legal and other professional advice on the appropriate strategies and courses of actions that may be taken from time to time in the hope of resolving expeditiously the dispute and claims with XALT while safeguarding the Group's interests.

(2) Winding-up petition against a subsidiary

On 24 September 2019, Hong Kong Automobile Limited ("**HKAL**"), a wholly owned subsidiary of the Company, received a winding-up petition presented by Pininfarina S.p.A. (the "**Petitioner**") for an order that HKAL be wound up by the High Court of the Hong Kong Special Administrative Region (the "**High Court**") pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, Laws of Hong Kong) (the "**Winding-up Petition**"). The Winding-up Petition was filed against HKAL for a claim of €3 million pursuant to a design contract.

The Company and HKAL had consulted their legal representatives and based on their current understanding of the facts, believe HKAL has an arguable defence to the Winding-Up Petition. On 18 October 2019, HKAL instructed its legal representatives to file the necessary documents to the court to contest the Winding-Up Petition. A substantive hearing of the Winding-Up Petition for arguments is scheduled to be heard in the High Court in May 2020 (subject to adjournment).

The Board has assessed the co-operation of the Group with the Petitioner after receiving the Winding-Up Petition, and is of the view that the Winding-Up Petition will not have any material impact on the operations and financial position of the Company due to the following reasons:

(a) the Group possesses all major technologies for the components of its electric vehicles, including but not limited to, the powertrain system and the battery management system. In addition, the Winding-Up Petition only represents a dispute in relation to a memorandum of understanding (as supplemented), which does not affect all formal agreements previously entered into by the Group with the Petitioner in that all the technical know-how developed belonged to the Group; and

(b) as the Company possesses all major technologies as discussed above, the Board considered that, in the event there is any unfavourable development on the relationship between the Group and the Petitioner, the Company may engage other European supplier(s) to continue the development projects for the Group in the future.

Please refer to the announcements of the Company dated 25 September 2019, 14 October 2019, 20 November 2019, 2 December 2019 and 24 December 2019 for details.

The Company will continue to closely monitor any further developments of the matter and will make further announcements in compliance with the Listing Rules as and when appropriate.

AUDIT MATTERS

In light of the existence of or uncertainties arising from the matters stated below (which were brought forward from the year ended 31 December 2018), the Auditors have preliminarily indicated to the Board that the opinion to be expressed by them on the consolidated financial statements of the Group for the Year upon finalization of their audit is expected to be modified or qualified on the basis set out below.

(1) Prepayment to a supplier

(Note 16 to unaudited consolidated financial statements)

The Auditors are yet to be able to obtain sufficient evidence to ascertain whether such prepayment to the supplier will be recovered in the foreseeable future, the carrying amount of the payment are fairly stated; and the existence and completeness of contingent liabilities in relation to the prepayment to the supplier are disclosed.

(2) Material uncertainty related to going concern

(Note 2 to unaudited consolidated financial statements)

The unaudited consolidated financial statements of the Group states the Company incurred a loss and operating cash outflow for the year ended 31 December 2019. From the auditing perspective, the validity of the preparation of the unaudited financial statements on a going concern basis depends primarily upon the major shareholder's financial capability or commitment towards the Group, the existing conditions would likely to be viewed as a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern.

Views of the Audit Committee of the Company and the Board

(1) Prepayment to a supplier

The Audit Committee and the Board consider that the Company had provided all available evidence to the Auditors' making of the prepayment to, and its receipt by the recipient XALT supplier (whom and whose related parties are involved in the Lawsuit). While the Company had repeatedly communicated and urged the management of XALT to respond to the audit confirmation sent by the Auditors, the unresolved dispute or the Lawsuit had made it difficult (if not impracticable) for XALT to cooperate and accede to the request for audit confirmation promptly. In the absence of the audit confirmation from XALT, the Auditors would remain unable to conclusively determine whether the possible audit qualification can be removed according to the auditing standards. Since there is yet to have a resolution of issues relating to the prepayment, the Audit Committee and the Board consider it is not within the control of the Company to conclusively evaluate to the Auditors' satisfaction whether or not the prepayment (or any portion of it) is unrecoverable, or whether the record of the prepayment in the consolidated financial statements of the Group were fairly stated or whether any contingent liabilities shall be recognised by the Company for the Lawsuit.

As the removal of the possible audit qualification is hinged on the resolution of the legal disputes with XALT, the Company will continue to engage in discussion with XALT with the aim of resolving all parties' legal claims amicably.

(2) Material uncertainty related to going concern

The Group has been proactively seeking collaborations with potential business partners and investors who have expressed interests in business or investment opportunities with the Group in order to strengthen the financial position and expand the income stream of the Group. In the event that any of these collaborations and/or investments can be consummated and formal agreement(s) be entered into, the Company will comply with the applicable requirements under the Listing Rules and make further announcements as and where appropriate.

Further, the major shareholder of the Company has undertaken to the Company to provide, if required, continuing financial or other form of support to the Group to meet its financial obligations as and when they may fall due. It is expected that any support, if given, will be conducted on normal commercial terms (or better) and not secured by the assets of the Group, and the Company will comply with the applicable requirements of the Listing Rules.

Based on the above, the Audit Committee and the Board consider that the Group will have sufficient working capital for the operation and development of its business.

Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the respective websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://hk1188.etnet.com.hk). The audited consolidated annual results of the Group and the annual report of the Company for the Year will be available on the respective websites of the Stock Exchange and the Company in due course.

By Order of the Board
HYBRID KINETIC GROUP LIMITED
Yeung Yung
Chairman

Hong Kong, 31 March 2020

As at the date of this announcement, the Board comprises nine executive Directors, namely Dr Yeung Yung (Chairman), Mr Feng Rui (Chief Executive Officer), Dr Huang Chunhua (Deputy Chairman), Dr Wang Chuantao (Deputy Chairman), Mr Liu Stephen Quan, Dr Zhu Shengliang, Mr Li Zhengshan, Mr Ting Kwok Kit, Johnny and Mr Chen Xiao, one non-executive Director, namely Dr Xia Tingkang, Tim and five independent non-executive Directors, namely Dr Zhu Guobin, Mr Cheng Tat Wa, Dr Li Jianyong, Mr Chan Sin Hang and Mr Lee Cheung Yuet Horace.